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DEPT PASS TO USTDA-PAUL MARIN, EXIM-JRICHTER
DEPT PASS TO USTR-AGAMA
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TAGS: [ETRD](#) [EPET](#) [EINV](#) [ENRG](#) [EAGR](#) [EAID](#) [ELTN](#) [NI](#)
SUBJECT: NIGERIA: USTDA VISIT ELICITS GON ASSISTANCE REQUESTS FOR
PETROLEUM SECTOR

REF: A. ABUJA 1050
[B](#). ABUJA 549
[C](#). ABUJA 262

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[1](#). (SBU) Summary: The Ambassador met with Minister of Petroleum Resources, Dr. Rilwanu Lukman; Minister of State for Petroleum Odien Ajumogobia and Special Adviser to the President on Petroleum, Professor Emmanuel Egbogah on June 8 to introduce U.S. Trade and Development Agency (USTDA) Africa Manager Jason Nagy to discuss possibilities for USTDA to assist oil and gas sector reforms and related efforts. Lukman briefed on the petroleum sector reform program and asked for help in establishing three oil and gas regulatory authorities, technical assistance for refining, and other capacity building. He underscored that sectoral reforms are meeting resistance and U.S. assistance is urgently needed and said the Ministry would submit a formal request in writing detailing priority areas for assistance. (Reftel C). End Summary.

LUKMAN BRIEFS ON THE REFORM

[2](#). (SBU) Ambassador met with Minister of Petroleum Resources, Dr. Rilwanu Lukman, Minister of State for Petroleum Odien Ajumogobia, and Special Adviser to the President on Petroleum, Professor Emmanuel Egbogah on June 8 to introduce U.S. Trade and Development Agency (USTDA) Africa Manager Jason Nagy and discuss oil and gas sector reforms with the hope that USTDA will be able to assist Nigeria in its effort. EconOff attended as notetaker.

[3](#). (SBU) Lukman thanked the Ambassador for the efforts of the United States Agency for International Development (USAID) on natural gas policy and pricing. He emphasized that the work on gas delivery for power plants and flaring is especially critical and welcomed USAID to coordinate with USTDA and work closely with his staff. He also thanked the U.S. Trade and Development Agency (USTDA) for its technical assistance in the energy sector and especially for the Liquefied Petroleum Gas (LPG) Framework Study. He noted that the GON is currently planning the implementation of a new LPG policy and any additional information toward implementation and incentive programs from the USG is very welcome. The Ministry is working toward a rollout of LPG for cooking as well as for vehicles. Help is still needed in initial implementation, likely through a pilot

project in Lagos and Abuja. LPG efforts are planned for carbon credit incentives, all proceeds to be used to entice the public to use this alternate fuel to wood cooking fires and gasoline powered vehicles.

14. (SBU) The Minister continued by briefing on the major sectoral reform via the unbundling of the Nigerian National Petroleum Corporation (NNPC), to transform it into an integrated, international, commercial oil and gas corporation driven by revenue and profit. The move is also expected to deter corruption. The NNPC will become ten different groups. The oil and gas sector reform seeks to transform NNPC into the new National Oil Company, to be known as the National Petroleum Company of Nigeria (NAPCON). It shall be a fully integrated oil and gas company, competing both locally and internationally in all sectors of the industry. It would be divorced from other conflicting roles in policy, regulation, and national assets management, and would focus on its commercial operations with the prime objectives of revenue generation for its shareholder - the Federal Government of Nigeria.

The ten new groups are:

- The National Petroleum Directorate, a policy body charged with the responsibility of detailed policy initiation, formulation and development for optimum resource utilization. This is also expected to serve as the secretariat for the Ministry of Petroleum Resources.

-Three Regulatory Agencies:

- National Petroleum Inspectorate (NPI), which will be an autonomous stand-alone technical regulator and will replace the Department of Petroleum Resources (DPR);

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- The National Petroleum Asset Management Agency (NPAMA) will manage petroleum sector assets and be responsible for the commercial regulation of all exploration and production activities in the upstream sector including government owned assets (NNPC Ltd), international oil companies and indigenous producers, whether marginal or otherwise. Its span of control includes inland, continental shelf and offshore.

- The Petroleum Products Regulatory Authority (PPRA) will regulate the commercial aspects of the downstream sector of the industry. PPRA will issue, renew, suspend or cancel permits or licenses and also ensure that quality service is provided by the operators to the consumers in conjunction with the consumer protection council.

- The Nigerian National Petroleum Company Limited, a commercial center which will have strict commercial orientation and focus, and be vertically integrated and capable of competing both locally and internationally in all relevant segments of the oil and gas industry.

- The National Petroleum Research Center (NPRC), a research and development center which will promote capacity building and maximizing local value addition.

- The Petroleum Training Institute, to train manpower.

- The Petroleum Equalization Fund and The Petroleum Technology Development Fund.

And,

- National Frontier Exploration Services, to be responsible for regulating and stimulating petroleum exploration activities in the unassigned frontier acreages of Nigeria.

The reform plan also provides for the conversion of all existing joint ventures into incorporated joint ventures (IJVs). Each IJV will be a corporate entity to be incorporated under the laws of the Federal Republic of Nigeria, and the incorporation process, including capitalization and restructuring, will be carried out through negotiations with the respective International Oil Companies

(IOCs), during the reform transition period.

(Note: Egbogah told EconOff in a separate conversation on May 22 that the Minister of Petroleum Resources would not be the apex authority in the new institutional structure of the oil and gas industry. Sitting at the top of the reformed oil and gas sector will be the National Energy Council, a supra-ministerial council chaired by the President, and charged with the responsibility for broad, long term policies of the nation's oil and gas industry. Under the NEC comes the Minister of Petroleum Resources, who supervises the National Petroleum Directorate. The Minister of Petroleum Resources shall also be responsible for broad policy initiation, formulation and development in the oil and gas sector, though subordinate to the NEC. The National Petroleum Directorate, which subsumes regulatory functions of the Ministry of Energy, would be responsible for detailed policy development, policy implementation and resource management. It would also be in charge of planning and production activities in the industry. End Note).

LUKMAN UNDERSCORES IMMEDIATE HELP IS NEEDED FOR SUCCESS

15. (SBU) The Ambassador asked Lukman to discuss his top priorities his sector. Lukman asked if USTDA could help with technical assistance in setting up the three independent regulatory bodies (NPI, NPAMA, and PPRA) that will be separated from the commercial "for profit" organization. Current pending legislation, the Petroleum Industry Bill (PIB), allows for this important separation. The bill is expected to pass into law this year and the regulatory bodies will be launched. There is no current structure, experience, or human capacity for this type of regulation. Lukman expressed a need to establish a mentoring effort between Nigeria and the U.S. with like entities to address organizational structure, procedure, processes, and generally how to regulate. Lukman reminded the Ambassador that the road to implementation is a tough one; and again lamented that there is a lot of opposition to the reforms. He said

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he "needs the strength of the U.S." to be successful.

16. (SBU) Another component of the reform is the deregulation of gasoline, which also faces opposition. Lukman clarified that from a budget perspective the government literally cannot continue the subsidy and the implementation of the deregulation is likely to be sooner than later. In February the GON announced that it would stop the subsidy it paid to the independent licensed companies that import and distribute gasoline and diesel. Product importers say the landing cost of gasoline is between 85 and 90 naira (57 and 61 U.S. cents) per liter. Without a guarantee of a subsidy importers cannot sell at the government-controlled price. The subsidy keeps the cost of gasoline down to a government-controlled 65 naira (44 U.S. cents) per liter. Nigeria exports the vast majority of its crude oil and imports over 60 percent of refined petroleum products. Corruption, inefficiency and lack of maintenance have crippled the four state-owned refineries which struggle to produce less than half of the 30 million liters of gasoline the country needs each day. (Reftel B). Lukman also requested USTDA technical assistance to enable existing refineries to provide more gasoline and other petroleum products at market rates. Lukman welcomed USG input to an integrated approach toward refining efficiency that includes environmental concerns.

17. (SBU) Egbogah added that the GON would like assistance in implementing the Synfuels Gas to Liquid (GTL) process developed by Texas A&M University. The process is proven, but to implement the U.S. technology in Nigeria successfully requires technical assistance. Egbogah explained that the Synfuels process focuses on efficient high-temperature natural gas conversion into acetylene, which is then converted into ethylene at moderate pressures and temperatures. After the ethylene passes through a catalytic reactor, it is converted into products such as gasoline and jet fuel. He noted that Synfuels processes are also designed to be located upstream, in the field where gas can be converted efficiently, at its source, into transportable gasoline product or an ethylene based product.

GON ASKS FOR IMMEDIATE ASSISTANCE WITH REFINING, MAINTENANCE, AND
CAPACITY BUILDING

¶18. (SBU) Lukman thanked the Ambassador for the efforts of the USG in support of Nigeria's energy sectors. The Ambassador complimented Lukman on the work he has done in planning the reform efforts and now managing the reform and the change it brings. She also noted that it might not be possible for USTDA to respond to all his suggestions but that we would look to get a written request from the Ministry that prioritizes 2-3 projects for USTDA to review. Lukman also added that Nigeria will be upgrading the teaching facilities at the Petroleum Training Institute in Effurun - Warri, Delta State and that curriculums will need to be developed for LPG technology applications, oil and gas regulation, and efficient refining technologies and operation.

¶19. (SBU) COMMENT: The Ministry has over the course of meetings in the last five months with EmbOffs consistently said that they want, trust, and prefer U.S. engineering, project management, training, goods, services, and policy guidance as the anchor for the implementation of rebuilding a sustainable energy infrastructure. Improvements in the power, oil and gas industries would have an enormous positive effect on the Nigerian economy. While the USG cannot be responsive to all Nigeria's needs, the GON's openness to U.S. input provides an opportunity to steer policies in more market compatible and stable directions. We await the Ministry's prioritization of 2-3 projects for USTDA to review and decide where they can best add value. END COMMENT.

¶10. (U) This cable was coordinated with ConGen Lagos and cleared by USTDA and the USAID Mission in Abuja.

SANDERS